

the future

ACCOUNTING AND TAX UPDATES

November 2008

Pre-Budget edition

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PRE-BUDGET SUMMARY 2008

OVERVIEW

Pre-Budget Report (PBR) is delivered by the Chancellor to the House of Commons in the autumn. It provides a progress report on what has been achieved so far, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget.

Businesses are facing an exceptionally challenging economic climate with uncertainty over the short to medium term. The decisive steps the Government has taken to help ensure financial stability are critical to business, and action, such as the temporary reduction in the rate of VAT, will provide significant support during the economic downturn. The Government is taking further action to help businesses respond to the current economic challenges over the short term.

The 2008 Pre-Budget Report announces measures to help small and medium-sized enterprises facing credit constraints, including a new Small Business Finance Scheme to support up to £1 billion of bank lending; a separate £1 billion guarantee facility to support bank lending to small exporters; a £50 million fund to convert businesses' debt into equity; and a £25 million regional loan transition fund.

A new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford.

A more generous tax relief for businesses now making losses and the modification of a number of planned tax reforms, including vehicle excise duty, air passenger duty, and deferral of the increase in the small companies' rate of corporation tax; and a package of reforms to the taxation of foreign profits, including the introduction of a foreign dividend exemption for large and medium-sized businesses, supported by a worldwide debt cap on interest.

To provide additional support for low and middle-income taxpayers, help for homeowners facing financial difficulties, and to ensure those facing redundancy and seeking employment are helped back into work as quickly as possible, the Government will make permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130, meaning basic rate taxpayers pay £145 less tax a year in 2009-10.

The Government is also taking measures to consolidate the public finances, and the combined effect of all its reforms will mean that taxpayers with incomes below £40,000 will pay less tax and national insurance contributions in April 2011 compared to April 2008.

The Government will bring forward April's increase in Child Benefit to January, worth an additional £22 on average to families; and bring forward the commitment to increase the child element of the child Tax Credit by £25 above indexation in April 2010 to April 2009 meaning it will increase by £75 above indexation to £2,235 in April 2009.

The Government will pay £60 to all pensioners in the New Year, which is equivalent to bringing forward the April increase in the basic State Pensioner for a single pensioner to January.

It will create a new Lending Panel to improve monitoring of lending to households and businesses, and provide help through mortgage rescue and Support for Mortgage Interest schemes to eligible homeowners in difficulty.

SUMMARY

The main changes announced by the Chancellor include;

- **Changes to VAT**

- The standard rate of VAT will be reduced by 2.5% from 17.5% to 15% on 1 December 2008. This new rate will apply until 31 December 2009, when it will revert to 17.5%. Only standard-rated sales are affected. There are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the VAT exemptions.

- **Business Payment Support Service**

- Businesses are facing an exceptionally challenging economic climate with uncertainty over the short to medium term. The Government is taking action to help businesses to respond in the short term.
- The Chancellor announced that from 24 November 2008, HMRC have introduced a new, dedicated Business Support Service designed to meet the needs of businesses affected by the current economic conditions. This will provide specific help where customers are worried about being able to pay tax, National Insurance or other payments owed to HM Revenue & Customs.

- **HMRC Business Payment Support Service**

- **Her Majesty's Revenue and Customs (HMRC) will provide a new service for businesses in temporary financial difficulty and unable to pay their tax bills to spread payment of their bills over a timetable they can afford. The service will cover all taxes paid by business, including corporation tax, VAT, PAYE, income tax and National Insurance Contributions.**

- **Personal Tax, Child Benefit, Tax Credit and National Insurance changes**

- The child benefit increases brought forward to 5th January 2009 instead of April.
- The personal tax allowance increases to £6,475; and the basic rate tax limit to £37,400 from April 2009.
- Basic Personal allowance for individuals with income over £100,000 to be reduced from April 2010.
- A new tax rate of 45% on income over £150,000 from April 2011
- Class1 and Class 4 NICs to be increased by 0.5% from April 2011

- **Excise Duty Changes**

- The duty on alcoholic drinks will be increased by 8% with effect from Monday 1 December 2008.
- The duty on tobacco products will be increased by 4% with effect from 6pm on Monday 24 November 2008.
- The fuel duty rates for 2008 introduced in the Finance Act 2008 will be reinstated with effect from 1 December 2008.

- **Business Tax Changes**

- The planned increase in the Small Company Rate from 21% to 22% from 1 April 2009 has been deferred until 1 April 2010.
- The loss carry back rules are to be extended, for CT accounts ending between 24/11/08 & 23/11/09 and IT accounts ending in 2008/09, by allowing the loss carry back to three years. The amount to be carried back under the new provision is capped at £50,000.
- A package of reforms to the taxation of corporate foreign profits, including the introduction of an exemption for foreign dividends will be in Finance Bill 2009

- **Interest-free payment schedule for backdated business rates bills**

- To reduce the cash flow impact on businesses, given current economic difficulties, the Government will legislate to give more time to pay certain backdated business rates bills issued before 31 March 2010. Business facing such bills will be able to pay their liability for previous years in equal interest-free instalments over 8 years, rather than immediately. Beneficiaries will include several occupiers of ports who have been affected by recent rating reviews.

Personal matters

Personal taxation

Income Tax Allowances table

Income tax allowances	2009-10 (£)	2008-09 (£)
Personal allowance (reduces taxable income)	£6,475.00	£6,035.00
Personal allowance for people aged 65-74 (1)	£9,490.00	£9,030.00
Personal allowance for people aged 75 and over (1)	£9,640.00	£9,180.00
Married couple's allowance (born before 6th April 1935 but aged under 75) (1) (2) (3)	N/A	£6,535.00
Married couple's allowance - aged 75 and over (1) (2)	£6,965.00	£6,625.00
Income limit for age-related allowances	£22,900.00	£21,800.00
Minimum amount of married couple's allowance	£2,670.00	£2,540.00
Blind person's allowance	£1,890.00	£1,800.00

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple's allowance. For individuals aged 65-74 there is a £460 rise to £9,490 and those aged 75 and over also see an increase of £460 to £9,640. The income limit for these age-related allowances will go up by £1,100 to £22,900.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

(3) - In the 2009-10 tax year all Married Couple's Allowance claimants in this category will become 75 at some point during the year and will therefore be entitled to the higher amount of the allowance - for those aged 75 and over.

(4) - From 6 April 2010, the personal allowance will be reduced for those with gross income over £100,000. Where an individual's income is less than £140,000, the allowance will be reduced by £1 for every £2 of income over £100,000, up to a maximum reduction of 50% of the allowance.

For those with gross income over £140,000, there will be a further reduction of £1 for every £2 excess until the allowance is wiped out altogether.

For individuals with income in excess of £150,000, from 6 April 2011 there will be a new 45% income tax rate. Consequent to this, there will also be a higher rate of 37.5% on dividends as compared to the current rate of 32.5%.

Taxable Bands

Taxable Bands Allowances	2009-10 (£)	2008-09 (£)
Basic rate 20%	£0 - £2,440	£0 - £2,320
Higher rate 40%	over £37,400	over £34,800

Important note:

From 2008-09 there is a 10 per cent starting rate for savings income only. If your taxable non-savings taxable income is above this limit then the 10 per cent starting rate for savings will not apply. The rates available for dividends are the 10 per cent ordinary rate and the 32.5 per cent dividend upper rate.

National insurance

On or after 6 April 2009, the upper earnings limit for employees Class 1 NIC will be aligned with the level at which people start to pay higher rate income tax. From 6 April 2011:

- the NIC primary threshold will be broadly aligned with the income tax personal allowance.
- the main rate of Class 1 and Class 4 NIC will be increased by 0.5% to 11.5% and 8.5% respectively.
- the Class 1 employer rate of NIC will be increased by 0.5% to 13.3%. The increased rate will also apply to Class 1A and Class 1B contributions.
- the additional rate of Class 1 and 4 NIC will be increased by 0.5% to 1.5%.

All changes are effective from 6 April 2009.

Class 1 - employed (not contracted out)	Employer	Employee
Payable on weekly earnings of £110.01 - £844	12.80%	11%
Over £844	12.80%	1%
Men aged 65 and over, and women aged 60 and over	as above	Nil
Employees' contracted-out rebate		1.6%
Class 2 - flat rate, self employed		£2.40 per week
Excepted if earnings less than		£5,075 per annum
Class 3 - voluntary		£12.05 per week
Class 4 - self employed, on profits		
£5,715 - £43,875		8%
Excess over £43,876		1%
(exempt if state retirement age is reached by 6 April 2009)		

Income shifting

The government has announced that it will continue to look at countering 'income shifting' (the ability to reduce overall tax and NICs costs by redistributing income usually within family businesses) but that given current economic challenges it will defer action and not introduce legislation in Finance Bill 2009 but keeping this under review.

Pension schemes - the lifetime allowance and annual contribution allowance

As of 6 April 2010:

- the lifetime allowance available to pension scheme members who take pension and lump sum benefits will rise from £1.75million in 2009/10 to £1.8m; and
- the annual contribution allowance will increase from £245,000 in 2009/10 to £255,000.

In both cases, the increased rates will be held constant for a further five tax years i.e., up to and including the tax year 2015/16.

Capital gains tax and Inheritance tax

Capital gains tax

Each tax year you have an annual tax-free allowance - known as the 'Annual Exempt Amount'. You only pay tax on total net gains above this amount, using the Capital Gains Tax rate for that tax year. Nearly everyone who lives in the UK will get the Annual Exempt Amount. This allows you to receive some normally taxable gains 'tax-free'. There are different Annual Exempt Amounts for individuals (including personal representatives) and most trustees. The amounts are set for each tax year.

2008-09

There is a single rate of Capital Gains Tax of 18 per cent for individuals, trustees and personal representatives.

Annual exempt amount	2009-10 (£)	2008-09 (£)
Individuals	TBC	9,600
Trusts generally	TBC	4,800

N.B. Gains on the disposal of an individual's principle private residence is still exempt.

Inheritance tax

Rates	2008-09 (£)	2007-08 (£)
0%	Up to £312,000	Up to £300,000
40% (death rate)	Over £312,000	Over £300,000
20% (lifetime rate)	Over £312,000	Over £300,000

The threshold will be £325,000 for 2009/10 and £350,000 in 2010/11.

Main Exemptions

	Unlimited	Unlimited
Gifts to UK domiciled spouse		
Annual gifts	£3,000	£3,000
Small gifts to different individuals	£250	£250
Gifts on marriage - by parent	£5,000	£5,000
Gifts on marriage - by remote ancestor	£2,500	£2,500
Gifts on marriage - by other person	£1,000	£1,000

Minimum wage

An employer must pay their workers a minimum amount as defined by law. This is called the National Minimum wage.

There are three levels of minimum wage, and the rates from 1st October 2008 were:

- £5.73 per hour for workers aged 22 years and older
- A development rate of £4.77 per hour for
 - workers aged 18 - 21 years inclusive
 - workers aged 22 years and above, starting a new job with a new employer and doing accredited training*
- 3.53 per hour which applies to all workers under the age of 18 who are no longer of compulsory school age**.

*Accredited training is a course approved by the UK Government to obtain a vocational qualification.

**Compulsory School age

Individual Savings Accounts (ISA's)

Tax-free savings limit for ISA contributions will be increased to £7,200 from April 2008, of which £3,600 can be held in cash.

Maximum annual subscriptions	After 5th April 2008
Mini cash ISA	£3,600
Stocks and shares mini ISA	£7,200
Maximum overall limit	£7,200

State pension

State pension - from April 2009 the basic state pension increases from £90.70 to £95.25 a week (for couples from £145.05 to £152), and the pension credit guarantee rises from £124 to £130 a week - £189 to £198 for couples. There will be a one-off payment of £60 (£120 for couples) in January on top of the usual £10 Christmas bonus.

Child Benefit

Children - from January 2009 all families will get Child Benefit of £20 a week (currently £18.80) for their first child. The rate for second and subsequent children will rise from £12.55 to £13.20 a week. From April 2009, the child element of child tax credits will also go up by £25 more than inflation.

Filing deadlines

The deadlines for filing tax returns will change for the 2007/08 tax year onwards as follows;

- Paper returns will need to be filed by 31st October (i.e. 31st October 2008 for 2007/08)
- Electronic filing (on-line) will remain 31st January
- Taxpayers whom require HM Revenue & Customs to calculate their tax will have until 31st October in which to file their return

Currently HM Revenue & Customs have from the first anniversary of the filing deadline to open an enquiry into a tax return, this will now be amended for 2007/08 when the enquiry window will be for twelve months from the date the return is filed.

Business matters

Corporation tax

Small companies

The small company rate of corporation tax which had been expected to rise to 22% from 1 April 2009 will now be deferred for one year. The new rate will now take effect from 1 April 2010.

In order to help businesses that are currently facing tough trading times, there will be a temporary extension of the period against which trading losses can be carried back. Currently active businesses can carry losses back against profits for the preceding year and this will continue without limit; however for one year businesses are able to carry back a further £50,000 (maximum) of trading losses against the profits of the two previous years.

For companies this applies for accounting periods ending between 24 November 2008 and 23 November 2009 and for unincorporated businesses this relates to trading losses arising in the tax year ended 5 April 2009.

Capital allowances

To continue to encourage investment by small businesses, the rate of first-year capital (FYA) allowances for small businesses spending on most plant and machinery will be 100% to 2008/09. The increased allowance will apply to spending incurred on or after 1 April 2008 for businesses in the charge to corporation tax, and on or after 6 April 2008 for businesses in the charge to income tax.

Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of depreciation charged in accounts which is not tax allowable. The main rate of capital allowances for general spending on plant and machinery is 25% a year on the reducing balance basis; this will be reduced to 20% from 2008/09. Capital allowances on long life assets will be increased from 6% to 10% per annum from 2008/09.

Capital allowances	2008-09 (£)	2007-08 (£)
Plant and machinery		
- Writing down allowance	20%	25%
- First year allowance small enterprises *	100%	50%
- Long life assets	10%	6%
Motor cars		
- Writing down allowance**	20%	25%
- First year allowance ***	100%	100%

* Certain assets excluded, for the first £50,000 of expenditure on plant & machinery.

** Subject to £3,000 maximum per annum

*** For cars electronically propelled or registered after 16 April 2002 with CO₂ emissions of 120g/km or below

Private Use of Company Cars and Vans

The changes to be made to business tax relief for expenditure on cars will take effect from 1 April 2009:

- the changes are broadly as expected and relief will be based on the CO₂ emissions of each car. If the car has emissions no greater than 110g/km it will attract an immediate 100% tax write down; if the emissions exceed 110g/km but not 160g/km the car is attracts 20% Writing Down Allowance (WDA) in the general pool. Cars with emissions exceeding 160g/km are dealt with in the special rate pool attracting WDAs at 10% per year. No balancing adjustment will be available on disposal of the car.
- a car owned by an unincorporated business and with an element of non-business use will continue to be held in a separate private-use pool. Capital allowances will be based on the emissions of the car as per the new regime. Currently such cars attract a balancing adjustment

on disposal and as they will continue to be held in single use asset pools it seems that this will still be available (a Technical Note providing further details will be published shortly).

- the new capital allowances rules apply to cars acquired on or after 6 April 2009 (1 April 2009 for companies). Expenditure incurred before that date will be subject to the existing 'expensive' car rules for five years with any balance at that date being transferred to the general pool.
- cars obtained on a lease have a restriction on the amount of tax relief for the finance element of the lease payments. This restriction applies to 'expensive' cars. Under the new regime only cars with CO2 emissions in excess of 160g/km will have a restriction for lease payments at 15% of the relevant payments made under the lease.
- cars acquired under leases commencing prior to 6 April 2009 (1 April 2009 for companies) will continue to be subject to the existing rules.
- motorcycles are excluded from these rules and expenditure on or after 6 April 2009 (1 April 2009 for companies) will qualify for the Annual Investment.

Mileage expenses

Employees (including directors) using their own vehicles for work is entitled to receive certain payments free of tax and NICs (the rules for each are related but not identical). If employees receive greater amounts than are allowed tax-free, they will pay tax on the excess. If they receive greater amounts than are allowed NICs-free, both employers and employees will be liable for Class 1 NICs on the excess. If employees receive less than the respective amounts above, no NICs will be payable and tax relief will be available. The current rates as follows;

Approved mileage rates		
From 2002/03	First 10,000 business miles in the tax year	Each business mile over 10,000 in the tax year
Cars and vans	40p	25p
Motor cycles	24p	24p
Bicycles	20p	20p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

Company Cars - Advisory Fuel Rates for Company Cars from 1 July 2008

These rates apply to all journeys on or after 1st July 2008 until further notice for employees (including directors) claiming mileage:

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p	13p	7p
1401cc to 2000cc	15p	13p	9p
Over 2000cc	21p	17p	13p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

Value Added Tax

The standard rate of VAT will be temporarily reduced to 15% on 1 December 2008, with the 17.5% rate being restored on 1 January 2010. Only standard-rated sales are affected. For any sales of standard-rated goods or services that take place on or after 1 December 2008 VAT should be charged at the new rate of 15%. There are detailed rules covering the rate change and legislation will be brought in to prevent the creation of artificial arrangements to avoid the return of the VAT rate to 17.5%. *Please see attached the HMRC Vat guild summary.*

If you would like any further information on the tax issues discussed above, please contact Heidi Pay on 01242 230043.

This newsletter is for general guidance only and represents our understanding of law and Inland Revenue practice as at 1st December 2008. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstance of the investor.